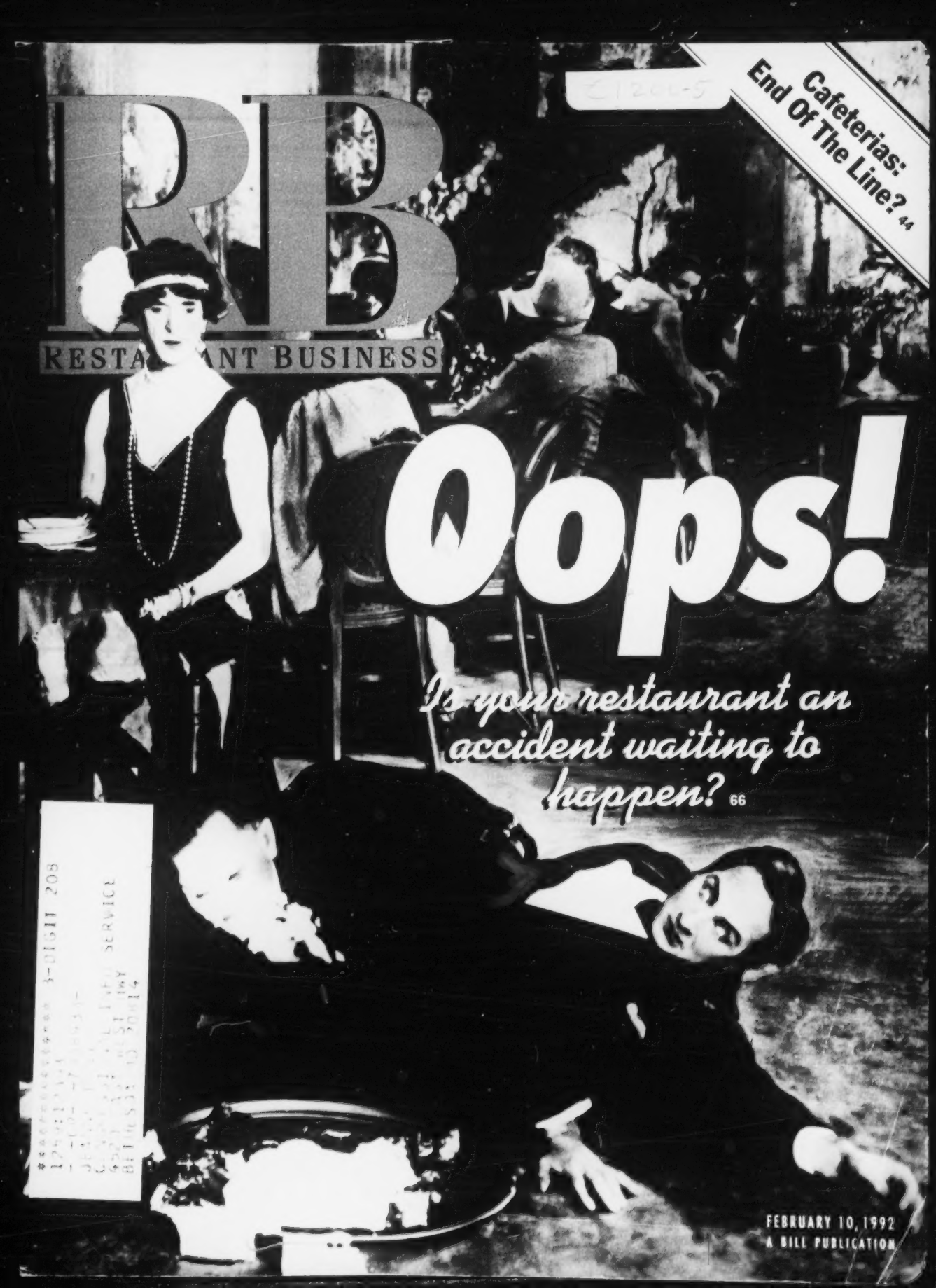
RB
RESTAURANT BUSINESS
Cafeterias: End Of The Line? 44
Oops!
Is your restaurant an accident waiting to happen? 66
FEBRUARY 10, 1992
A BILL PUBLICATION

FOOD AND BEVERAGE

MENU IDEAS BEEF. Despite increased consumer concern about fat and cholesterol, 84% of all commercial operations report serving beef, up 8% from 1988. Americans still have a taste for meat, but they are satisfying it in a variety of ways, from garnish-size bites enhancing vegetables and starches to dinosaur-sized steaks with all the trimmings 83

PRO'S PANTRY FLOUR. The basic ingredient of nearly all baked goods, flour is the key to good crumb 91

CHEF'S ART STAN FRANKENTHALER. At the Blue Room in Cambridge, Mass., a "consortium of ideas" manifests itself in dishes like peanut-crusted tuna steak with Indonesian catsup 94

PIECE MEAL BURRITOS. This Mexican finger food is becoming the darling of operators who want to offer their customers a mix-and-match dish that can be assembled quickly from preprepped ingredients 99

DRAFTS, CARAFES & SPIRITS WISE WINE PRICING. Customers are wise to retail wine prices, so it's no time to be suspected of price gouging. Yet operators need a good profit margin on beverages to balance the losses they're taking elsewhere 151

COLUMNS AND DEPARTMENTS

BUSINESS BAROMETER 2

EDITORIAL 8

LETTERS 16

INSIGHTS. Industry News 20

PRODUCTS 104

COMPUTER LINK. Training 154

EQUIPMENT I.Q. Hot-beverage Systems 158

BUYER'S CIRCLE. Noteworthy Equipment 164

CLASSIFIED ADVERTISEMENTS 169

OPERATORS INDEX 172

ADVERTISERS INDEX 172

READER COMMENT CARDS 123, 173

INDUSTRY REPORTS AVAILABLE

Reprints of the **1991 RESTAURANT GROWTH INDEX** and **1991 MAJOR FORCES IN FRANCHISING** are available for $7 per copy. Direct inquiries to Editor Scott Allmendinger, *Restaurant Business*, 633 Third Ave., New York, NY 10017.

IN THE NEXT ISSUE

COVER STORY THE FAMILY BUSINESS. Taking on the family business can be a richly rewarding experience—or a disaster. This article takes an intimate look at one family owned business to discover the priorities, pitfalls, and possibilities.

MARKET SEGMENT REPORT BREAKFAST. The rapid growth in this daypart of the early '80s has slowed as most of the major players have breakfast firmly ensconced on menu boards. And, any remaining breakfast-only concepts have broadened selections to target other dayparts.

INDEPENDENT STAR MOTHER'S. This old-fashioned New Orleans dive turns out great biscuits and gravy, oyster po'boys, and muffelata sandwiches. Find out how chef/owner Jerry Amato keeps tourists and locals lining up around the block for his traditional food.

DRAFTS, CARAFES BUILDING TRAFFIC. Consumer concerns about health and DWI are making it more difficult than ever to boost alcohol sales. But the right mix of promotions, quality drinks, and nonalcoholic alternatives can still produce profits.

TEST KITCHEN:
Beef, p. 83.

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SUPERMARKETS

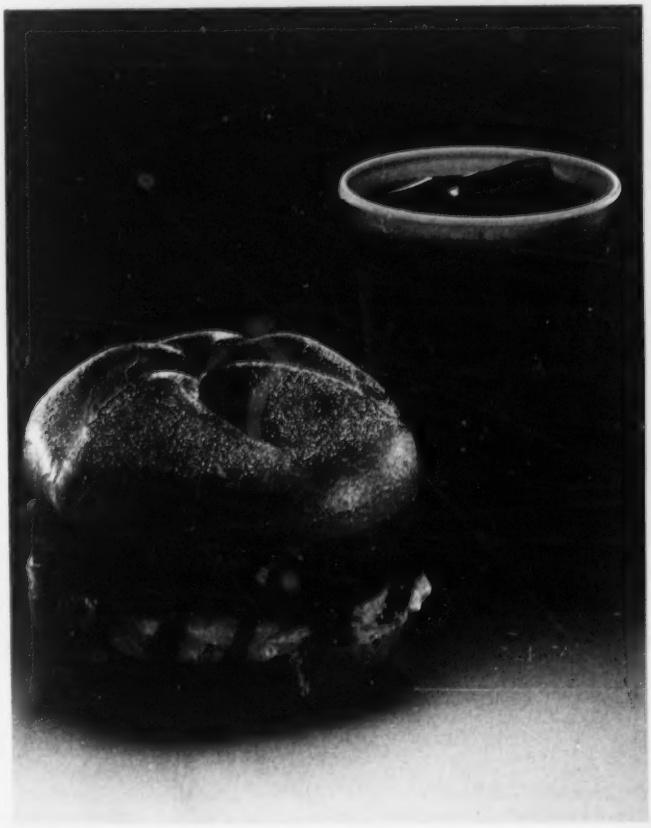
MARKET SEGMENT REPORT

The pace of deli expansion has slowed—for now.

By Kevin Farrell

Battered by a blistering, nationwide recession, confronting a demanding, price-conscious shopper, and facing new competition from "super-stores," traditional grocery stores are taking a hard look at their commitment to foodservice while seeking new ways to ring up ever-higher returns from existing prepared food and deli operations. The phenomenal growth in new foodservice operations within stores that marked the supermarket business in the '80s appears to have slowed—for now.

But, as supermarkets take stock of their commitment to foodservice, the picture is mixed. While certain "leading edge" grocery stores such as Price Chopper of Kansas City, Mo., and Los Angeles' Gelson's remain fully dedicated to prepared foods and are even adding sit-down restaurants as they expand their operations, other chains, such as 80-unit Marsh Supermarkets Inc. of Yorktown, Ind., are taking a more conservative approach to foodservice and are stopping to see if the promised profits from prepared foods are really materializing. And some grocery stores, such as Sutton Place Gourmet of Rockville, Md., and Randall's of Houston, which have built a strong reputation as providers of restaurant-quality foods for consumption at home, are re-doubling their efforts in the face of stiff competition from restaurants, other grocers, and the ever-expanding take-out and home-delivery market.



Wawa is committed to foodservice. Last year the grocery chain rang up prepared food sales of $20 million. Pictured: a grilled chicken sandwich.

Sales of hot and cold prepared foods in supermarket delis were $4.7 billion in 1990, which was up 22% from 1989 figures, according to *Supermarket Business* magazine, an industry trade publication. However, market analysts and consultants don't expect 1991 results to be anything like that.

And delis remain an integral part of the competitive mix: in the average grocery store, in-store delis account for about 3% of sales, while bakeries add another 1%.

continued on page 134

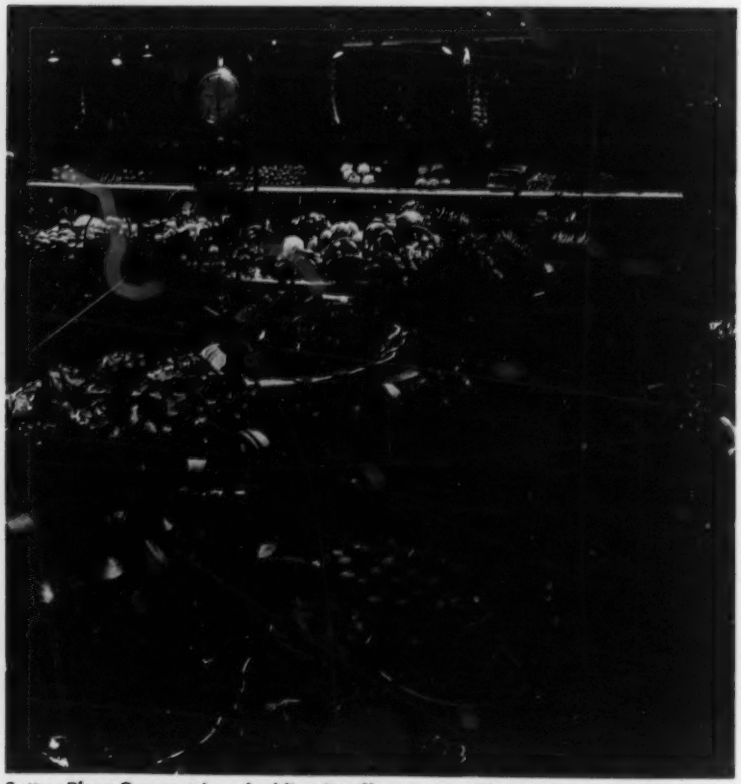
LOGO BY STEPHANIE CASSAS

But the incredible growth that delis enjoyed throughout the 1980s appears to be over, in part because so many stores have added delis that the growth totals are bound to decline. In 1990, the number of grocery stores with service delis increased by a fraction, and stores with self-service delis actually declined, according to *Progressive Grocer*, an industry trade magazine. Compare that to the 1980 to 1988 time frame, when the percentage of stores with delis skyrocketed to 71% from 42%.

The news is that many grocery stores openly acknowledge that they are in competition with restaurants for the food-away-from-home dollar. "Everyone is legitimate competition," says Brian Sales, director of foodservice for 22-unit Ukrop's Supermarkets Inc. of Richmond, Va. Ukrop's has redoubled its efforts in prepared foods, and now offers a 60-item menu that consumers can sample at home or in six of the stores that offer seating. "In prepared foods, we compete with the restaurants. But we are not at war with the restaurant business," says Sales. "We're responding to our customers."

War or not, in the last decade, grocery stores have begun to compete more aggressively with restaurants on the restaurant's traditional "turf" of high-quality, away-from-home meals. In the process, grocery stores that decided to get into the restaurant business—either through direct competition or with prepared foods from the deli and bakery departments—found themselves competing with the other departments of their own stores. The lure, however, was strong: profit. "The reason for the popularity of delis in grocery stores is simple," says Scott Miller, director of prepared foods for Randall's Food Markets Inc. "It's profit. Prepared foods offer a higher gross profit margin than other departments."

Sales of prepared foods in groceries were $4.7 billion.



Sutton Place Gourmet is redoubling its efforts to provide restaurant-quality food.

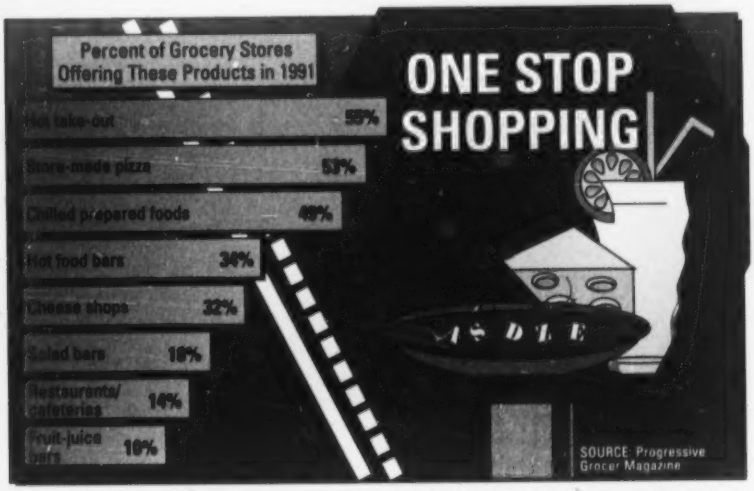
Respondents to a *Progressive Grocer* survey indicated that in-store delis accounted for an average of 11% of profits in 1990. But a number of stores with extensive and well-merchandised deli programs report that prepared foods yield hefty 15% and even higher profit margins, compared to the 2% to 3% figures from more traditional grocery store departments. In fact, say some operators, some stores got into the habit of raking in profits from the deli department to make up for "loss-leader" meat departments.

"What's spearheading this thing is convenience. The customer has told us that he or she has less time to shop and prepare food, and we're responding to that need," says Dennis Pollock, deli purchasing manager for Wawa Inc., a 490-store chain based in Wawa, Penna.

Adds Carol Fensholt, associate publisher of *Supermarket Business* magazine: "The amount of time people have to prepare food at home continues to be less and less. When husband and wife both work, there is less interest in coming home, cooking, and cleaning up afterwards. They go somewhere, either a restaurant, a grocery store, or a take-out operation. Supermarkets with extensive prepared-foods departments have benefited, because people are in the store often, and supermarkets have gotten them used to the idea of buying higher-quality foods."

But the glory days may be over, as operators dig in to face a bruising econ-

continued on page 136



CHARTS BY SHARI FANG

omy and increased competition. "The growth in prepared foods has leveled off because grocery stores are feeling the pinch of this recession, and because many of the stores that could add foodservice have already done so," adds Lee Dyer, editor of "Foodservice/Supermarkets," an insert in *Progressive Grocer.* "The deli business is nothing like it was in the '80s when it was jumping like crazy. On the whole, the grocery business is not even keeping up with inflation. They can't raise prices because of the economy, and they're being more careful about what they do with floor space in new stores."

One chain that has re-evaluated its commitment to foodservice is Marsh's. Last year, former corporate chef Marc Waltzer told *RB:* "If any chef wants to jump on a hot concept, supermarket foodservice is it." This year, Waltzer is out of his job at Marsh's, which is retrenching. Says Thomas Parker, vice president of operations: "All I will say is that we made a decision not to have a corporate chef at this time." Industry observers hint that Marsh's is re-evaluating its dedication to foodservice in light of decreased prepared-food department sales. Parker won't comment on that.

Clearly, the recession is taking a serious toll on supermarkets, and foodservice departments are feeling the pinch as well. Says Fensholt: "The supermarket business thought it was recession-proof in the past. Consumers would defer the purchase of a new car or washing machine, but they would splurge on food. That isn't true this time. This recession is pervasive and destructive. That is very bad news for supermarkets."

But the recession and the glut of deli operations in grocery stores aren't the only problems supermarkets face when getting into the restaurant business. The availability of chefs who want to work in grocery stores is limited, food manufacturers still haven't gotten the knack of providing restaurant-quality ingredients to grocery stores, and the know-how to operate a successful prepared-foods department or restaurant is quite different from that required to run a successful grocery store.

As stores commit more fully to prepared foods, they are finding out how to do it right. "More and more stores are figuring out how to do foodservice," says Howard Solganik of Howard Solganik & Associates in Dayton, Ohio, a consulting firm.

Another threat is the growing presence of superstores, and the fact that discount stores like Kmart are now selling food products, although they aren't yet in the prepared foods business. "The consumer sees more and more choices for buying food to consume in the home," adds Solganik.

One chain that has been particularly successful in this business is Sutton Place Gourmet, a five-unit chain with sales of $39 million. Prepared foods now account for 15% to 22% of each store's sales volume. Four of the five stores have their own kitchens which prepare a wide range of gourmet-type foods for what senior vice president Ann Brody calls "a discriminating customer." Sutton Place offers traditional deli favorites such as roast beef and salads, but it also serves roast rack of lamb, salmon with citrus sauce, crab cakes, and Mexican specialties.

Says Brody: "We see ourselves as a high-option store. That is, the customer has every option: to buy fully-cooked meals, to purchase raw product to cook themselves, to buy a cooked entree and prepared side dishes on their own, or vice versa. We're trying to offer enough options so that they will always think of Sutton Place Gourmet first."

Another option that Sutton Place now provides is sit-down restaurants. The chain's Alexandria, Va. store has a seven-seat restaurant with patio, a suburban Baltimore location features a deli cafe with 80 seats, and the Bethesda, Md., unit boasts a 20-seat ice cream parlor. Now, Brody's department is concentrating on integrating more prepared foods into other store departments. For example, a customer in the fish department will find a stuffing for the fish or a Rockefeller topping for the oysters purchased there. "Our competition?," asks Brody rhetorically. "Anybody who sells prepared foods."

As supermarkets move ever closer to direct competition with restaurants by offering sit-down dining in stores, a number of them have expanded the square footage of prepared foods and deli departments in order to better accommodate diners. David F. Ball, store director for Ball's Hen House Price Chopper Corp. of Kansas City, reports that the chain's four Hen House units offer seating for 75. With a salad bar and an extensive menu that includes sandwiches, chicken, Italian entrees, and Oriental specialties, Hen House provides various options to the store's

continued on page 140

Schenectady, N.Y.-based Price Chopper's grocery stores feature coffee shops and snack bars.

shoppers. "Our customers have told us that this is what they want," says Ball. "A Hen House customer can assemble a whole meal here, take it home and reheat it, and can choose to buy side dishes or just an entree and prepare the sides at home. This is restaurant-quality food that can either be eaten in the store or at home."

Now, Hen House is taking an even bigger gamble on restaurants. This month, it will open the first "Supreme Court," a food court that will offer five kiosks featuring scaled-down menus from five well-known chains: Chi-Chi's, Godfather's, Bennigan's, Ricky Shaw's, and Fifth & Grand. The new concept will be located in the chain's new Price Chopper and will offer seating for 75. While Ball's company is the first to implement the Supreme Court, it is the brainchild of Victor Cascio of Victor Cascio & Associates, an Overland Park, Kan., consultant to the grocery store industry. "The chains license the names and know-how to the stores and receive a percentage of the gross in return. The grocery store gets the chains' strategies and the benefits of the advertising and the brand names," says Cascio.

Many in the industry are waiting to see how Ball's Price Chopper unit fares. "Call me in six months if you want to know if it lives up to expectations," says Ball, who declines to comment further on the court's sales—or profit—potential. "All I'll say is that we think this is

continued on page 144

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the right way to go now," he adds.

Providing one-stop shopping is exactly what many grocery stores are trying to do in their emphasis on prepared foods, delis, and restaurants. "We want to keep the customer in the store," says Miller of Randall's. To that end, Randall's—with $1 billion in 1991 sales—offers scratch-prepared take-out items as well as restaurant seating. "We really operate restaurants," says Miller. Randall's 44 units offer breakfast, lunch, and dinner in 90% of the locations. "We have emphasized quality and service," he adds, noting that the chain has actively sought and hired managers with restaurant experience. "The grocery business is quite different from the restaurant business, and what we like is a mix of people in the ranks. We take people who have experience in on-site preparation of food and teach them the grocery business, while we get their expertise. Some stores even have executive chefs." Newer Randall's stores will feature an open-kitchen concept so customers can watch food being prepared. "Clearly, the market for restaurants in grocery stores is there if you do it correctly," adds Miller. "We have worked hard to build an eating-in business. We want customers to eat in the stores."

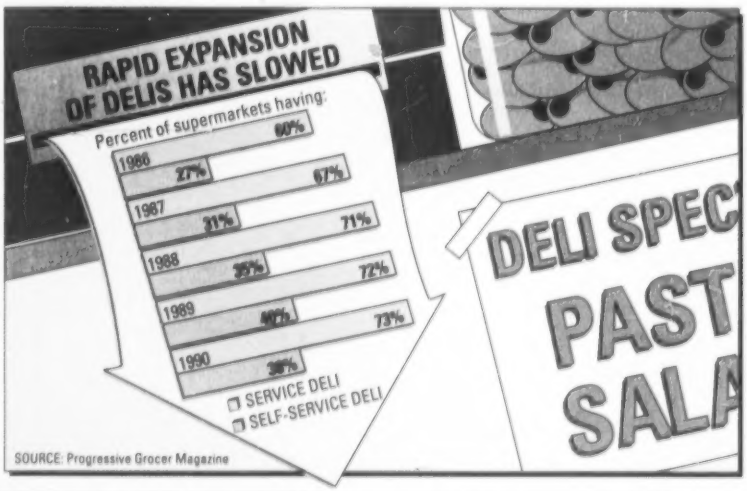
Price Chopper, the 77-store chain based in Schenectady, N.Y., is building a new group of stores, their "Supercenters," which will increase the chain's already significant emphasis on prepared foods and restaurant seating. "This is a very profitable department that fits in with our customer's lifestyle," says Joanne Gage, director of consumer services for the chain.

The new Supercenters—25 are now in operation—feature expanded service departments, including a pharmacy, fresh seafood, flowers, and expanded foodservice. The chain has introduced an in-store pizza program that allows customers to buy a pie to eat there or to take home, where it takes 10 minutes to complete the baking. In addition, the chain has introduced a "Cook's Kitchen" line of take-out deli entrees in the Supercenters. Each day, 20 to 25 upscale hot and cold entrees, side dishes, salads, and desserts are prepared in the stores. Some of the chain's traditional supermarkets offer coffee shops and

snack bars in deli departments, where customers can select from a limited menu of short-order items. Concludes Gage, "The Supercenters are where we're headed. Because the profit margins are higher, building sales is important because of bottom-line impact."

But, getting into this business and doing well at it are two different things. "The grocery store executives are looking more closely at the productivity of space in their stores," says Jim Duchek of Duchek & Associates, a St. Louis consultant to the food industry. "Because of the recession, capital is getting harder to come by. And, frankly, in some stores, the level of prepared food profitability hasn't been there, so they're taking a second look."

continued on page 148



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The difference seems to be commitment. "We have made the deli and the restaurants a prominent feature of our stores," says Paul McGillivray of Wellesley Hills, Mass.-based Roche Brothers Supermarkets, a nine-store chain that operates in Boston's suburbs. The chain inaugurated a food court in one store four years ago, featuring separate food stations within an expanded deli area. "We have merchandised it heavily to increase sales by setting it apart with separate signage. We created an identity for it," adds McGillivray. Including the deli and the foodservice operations, total sales hover near the 10% mark. "We are committed to this part of the business, and I think that makes a difference. This is the direction we're going in," he adds.

Echoes Pollock of Wawa: "We're committed to what it takes to be in this business. There are a lot of problems in the restaurant, deli, and prepared foods end of the business that grocers are uncomfortable with, such as the higher rate of spoilage, labor intensity, and prep time. But we have decided to emphasize this department. It gets the space, and we do significant in-store promotion." Wawa has heavily promoted its fast-food breakfast, a line of egg sandwiches served on bagels for 99¢ to $1.69.

The chain has been innovative in other ways as well. In the last year, Wawa has gone to a bag-cooking plan that Pollock says has increased quality and consistency. Everything from soups to full-course entrees are cooked and then frozen using the new process with a rethermalizing steam table from which customers select their items. Last year the chain rang up prepared food sales of $20 million.

The heated battle between grocery stores that offer strong foodservice programs is sure to continue, although it may be cooled by the current recession. Grocery stores will continue to offer more foodservice options to consumers because their advantages are significant. Among them: higher profit margins and the one-stop shopping strategy of keeping customers in stores. Restaurants will fight back by emphasizing their strong points: high quality food, service, and ambience. It is not a battle that is likely to be decided soon. **RB**

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RB
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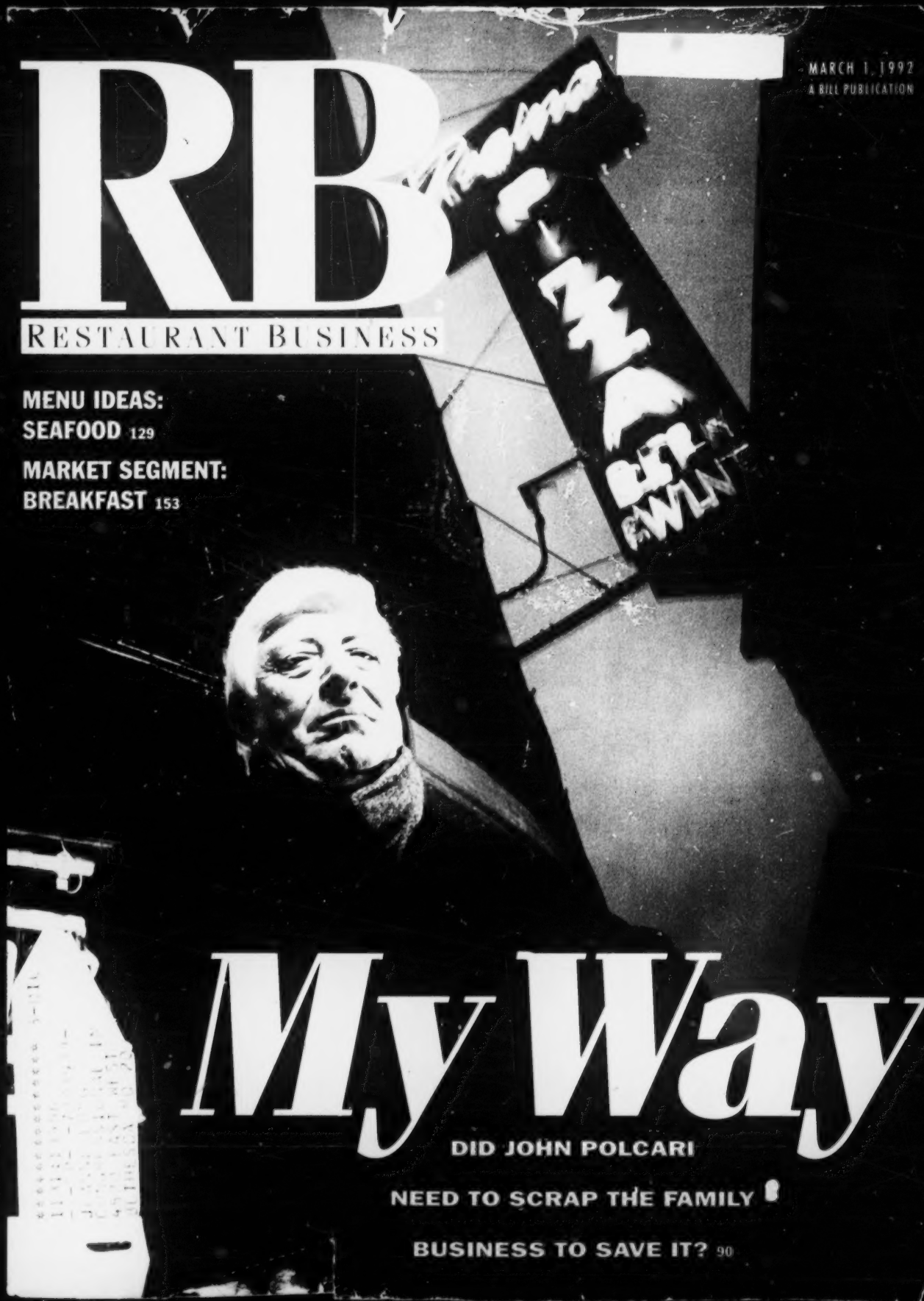
MENU IDEAS:
SEAFOOD 129

MARKET SEGMENT:
BREAKFAST 153



My Way

DID JOHN POLCARI NEED TO SCRAP THE FAMILY BUSINESS TO SAVE IT? 90

RB CONTENTS

MARCH 1, 1992 VOL. 91, NO. 4

COVER STORY:
In Boston, John Polcari Jr. has changed the family business. Page 90.

COVER STORY

FAMILY BUSINESS **POLCARI'S.** Grocer John Polcari Sr. developed two restaurants so successfully that they became landmarks in Boston's Italian North End. But when his sons took over the family business, disagreements began. John Jr. emerged victorious. And he's now in charge of a new company that bears little resemblance to his father's.....90

FEATURES

NEW ENGLAND **ECONOMY.** The region's miserable economy has already forced hundreds of restaurants out of business. And the carnage continues. Particularly hard hit are highly leveraged operators who opened in the mid- to late '80s—the ones who have to deal with the region's equally troubled banks.....58

FOOD TRENDS **ORGANICS.** Restaurant owners who specialize in organic foods say they're weathering the recession without having to resort to chemically treated substitutes, and insist that a dedicated clientele will pay a premium for the products.....66

INDEPENDENT STAR **MOTHER'S.** In business for over 50 years, this noisy, crowded, archetypical New Orleans restaurant hasn't changed much, but the new owners are still packing the customers in.....72

MULTIUNIT OPERATOR **CAPITAL GRILLE.** In East Providence, R.I., the Phelps-Grace Company is bucking the trends by opening not one but two upscale steakhouses.....78

MARKET SEGMENT REPORT **BREAKFAST.** More players keep entering the market, battling established operators for a share of a pie that essentially is not increasing. Chains that have traditionally enjoyed strong breakfast business are reporting mixed results: Some see opportunities dwindling, other operators are more optimistic....153

Cover photograph by Jeffery Titcomb

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FOOD AND BEVERAGE

MENU IDEAS SEAFOOD. When it comes to menuing seafood, operators are looking for a calm place to drop anchor. Market prices and product availability fluctuate radically, customers are skeptical, and sea creatures are difficult to handle. But it's also true that most people prefer to eat fish in restaurants, and that fish consumption continues to climb 129

PRO'S PANTRY VINEGAR. An essential ingredient in salad dressings and to enhance pan reductions, vinegar is also beginning to stand on its own as a non-fat, inexpensive condiment 137

PIECE MEAL BROWNIES. Light or dark, chewy or cakey, operators have long leveraged the fudgy allure of the brownie, but today its versatility is being played to the hilt 141

CHEF'S ART BENSON. In the Timberline Lodge at the foot of Mt. Hood in Oregon, chef Leif Eric Benson explores the state's natural bounty of foodstuffs 144

DRAFTS, CARAFES & SPIRITS BUILDING LOUNGE TRAFFIC. Patron lures include active promotions such as karaoke sing-alongs and video games, and "hungry hours" have replaced "happy hours" 149

COLUMNS AND DEPARTMENTS

BUSINESS BAROMETER 2

EDITORIAL 8

INSIGHTS. Industry News 16

STIRRINGS/SUPPLY LINES 53

PRODUCTS 106

EQUIPMENT I.Q. Grills, Griddles, and Broilers 198

BUYER'S CIRCLE. Noteworthy Equipment 204

CLASSIFIED ADVERTISEMENTS 208

OPERATORS INDEX 210

ADVERTISERS INDEX 210

READER COMMENT CARDS 201, 211

INDUSTRY REPORTS AVAILABLE

Reprints of the **1991 RESTAURANT GROWTH INDEX** and **1991 MAJOR FORCES IN FRANCHISING** are available for $7 per copy. Direct inquiries to Editor Scott Allmendinger, *Restaurant Business*, 633 Third Ave., New York, NY 10017.

IN THE NEXT ISSUE

SPECIAL REPORT FRANCHISING. The 27th Annual Franchising Report is new and improved. In addition to the standard data on sales and units of the Top 50 Franchise Systems (prepared by Technomic Inc.), there will be an exclusive, never before tabulated Restaurant Investment Summary, with information on: franchise fees; royalty and advertising fees; total investment costs; and sales/investment ratio.

SPECIAL REPORT MERGERS & ACQUISITIONS. The Merger & Acquisition Census, compiled by J.H. Chapman Group, Chicago, charts the significant trends in chain restaurant activity.

MARKET SEGMENT REPORT BBQ/COUNTRY COOKING. Regional barbecue preferences still prevail, stymieing attempts to grow local chains nationally. With midscale prices and family appeal, country cooking chains are well-positioned for the '90s.

DRAFTS, CARAFES & SPIRITS TEQUILA. Market share for this white goods continues to climb. But there's more to this story than margaritas; some customers are ordering aged tequilas by the shot.

TEST KITCHEN:
Seafood, p. 129.

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BREAKFAST

MARKET SEGMENT REPORT

The market isn't any bigger, but competition is hot.

By Carol Casper

Competition in the breakfast market segment continues to intensify. More and more players keep entering the daypart, battling established operators for a share of a pie that essentially is not increasing.

In this environment, restaurant chains that have traditionally enjoyed strong breakfast business are now reporting mixed results. Some operators see their opportunities for breakfast sales dwindling. In response, they are turning more of their attention to building other dayparts, ones that offer greater potential for growth. At the same time, other operators are considerably more optimistic.

Among the former camp is Jon Ostrov, vice president of marketing for Country Kitchen International, the 250-unit chain operated by Minneapolis-based Carlson Companies. "The sit-down, out-of-home breakfast is going to become less and less of a market for [Country Kitchen] to tap. We will always do well with breakfast on weekends, but the number of people with the time who are prepared to come in during the week has probably stabilized or will decline.

"People are more harried these days," says Ostrov. "They'll grab a donut, buy fast food, or pick up a snack at a convenience store, but they don't have the time it takes nor the interest in a full sit-down breakfast. I think the breakfast market is going to flatten out or decline, except on weekends when people are more relaxed."

Similarly Roger Williams, group vice president of 258-unit Bob Evans Farms, based in Columbus, Ohio, observes that "The market is soft." He feels that all a chain like Bob Evans can do is battle for a portion.

"A company our size cannot appreciably change people's eating habits," Williams points out. "McDonald's can create a new category. However, we can't change the number of people who eat out on

continued on page 154

PHOTO BY JOHN UHER

Though eating habits keep changing along with dining-out frequency, patrons still enjoy a traditional breakfast with a bowl of cereal and fruit.

← For more information on Prepco (Sectional) circle number 9

weekdays or weekends. All we can do is attract a share."

As a result of this perceived decrease in opportunities at breakfast, both chains are focusing more of their attention on building business in other dayparts.

"There's a range among our operations, but typically breakfast accounts for anywhere from the low to mid-40s percentagewise of our units' sales," Ostrov notes. "Our goal on a systemwide basis now is to achieve daypart equality. That means we're devoting more effort to increasing lunch and dinner traffic.

"We're trying to get our check averages up," Ostrov adds. "That's hard to do when you're selling two eggs, toast, and bacon for $2.

"Country Kitchen has been perceived predominantly as a coffee-shop chain for a long time. But in the last three years we've been trying to reposition ourselves into the mainstream of contemporary family dining.

"We're not turning our back on breakfast," Ostrov emphasizes. "But we're serious about achieving daypart equality."

Some operators are encouraged by the additional competition, claiming that it helps promote the daypart.

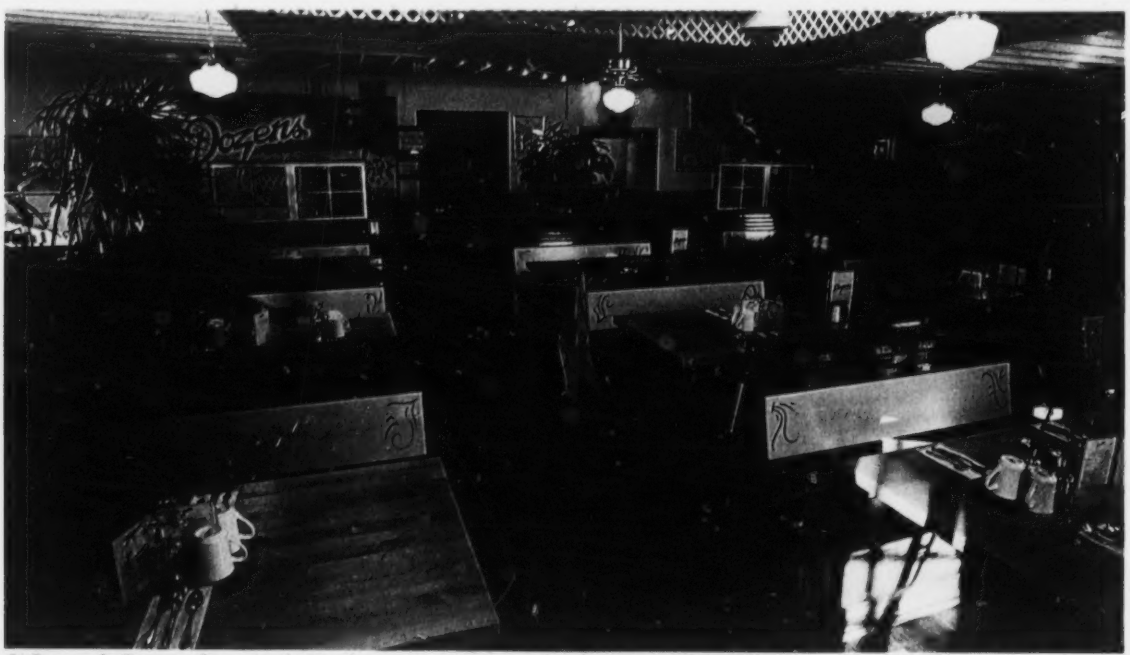
In a similar vein, Williams says that Bob Evans' heaviest promotional thrust is on building dinner business at present. "It's an area we're not strong in, so it offers more room for gains," he points out.

STEADY TRAFFIC. On a more positive note, Tom McNulty, senior vice president of marketing for 230-unit Village Inn reports that breakfast traffic has been holding steady for the Denver-based chain, a subsidiary of VICORP.

"Fiscal '91 was a record year for us," says McNulty. "If you look at CREST figures, breakfast as a portion of total foodservice sales has been declining annually for the last few years, so you might be inclined to think that breakfast is dead. But we've just had a record year for profitability, being primarily in breakfast. So apparently there is still room for restaurants to do a good job with breakfast. It has made Village Inn successful for over 30 years."

Another upbeat note is sounded by Stephen Pettise, vice president of marketing for Glendale, Calif.-based International House of Pancakes (IHOP), which operates more than 500 stores spread across the country. Pettise is heartened, rather than discouraged, by the increase in breakfast competition.

continued on page 156



At Dozens in Denver, the motto is "Freshness First." Business has been boosted by a fresh in-store bakery program.

BREAKFAST

MARKET SEGMENT REPORT

Burger King's Croissan'wiches, introduced several years ago, continue to sell well.

"I'm generally bullish because more people are getting into the segment," says Pettise. "Every time that happens, it promotes breakfast to top of mind for more of the market. It means another company talking about and promoting breakfast, and that's good for the segment as a whole," he maintains.

BECKONING PROMISE. Even though some traditional breakfast operators see opportunities diminishing in the morning daypart, to those who have not yet tapped the market, it beckons with promises of incremental business.

"When operators are suffering from a recession, the first thing that happens is they add breakfast to keep up their gross sales," observes Scott Diamond, one of the owners of Denver-based Dozens, a two-unit, upscale breakfast and lunch operation.

With fast feeders, including many hamburger and chicken operations, already well established in the breakfast market, some of the more recent additions include a number of sandwich and sub shop chains.

Milford, Conn.-based Subway has begun introducing breakfast in some of its stores; New York City-based Blimpie is taking a serious look at the daypart; and Port Of Subs, based in Reno, Nev., sees the morning meal as a major opportunity. The trend toward in-store bread baking by many sandwich chains is helping to fuel this move, since it opens up possibilities to offer other fresh-baked breakfast foods, in addition to breakfast sandwiches.

Another segment that has naturally gravitated toward breakfast is the growing category of bakery/cafes. They have been prospering by offering customers on the run what are generally perceived as lighter, healthier, and more upscale alternatives to the fast-food breakfast or simple donut.

On the retail side, convenience stores and supermarkets are also selling more breakfasts-to-go. Although their percentages may still be small in terms of total foodservice breakfast sales, retailers in general demonstrate a growing interest in developing foodservice business, and breakfast has proved one of the easiest segments, particularly for convenience stores, to break into.

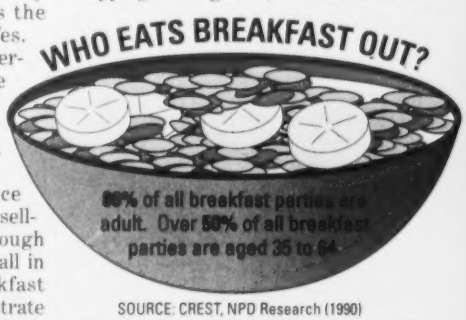
TRAFFIC COUNTS. Industrywide, breakfast traffic rose 2% for the 12 months ended August 1991, according to CREST figures from NPD Group, Park Ridge, Ill. Traffic grew 2% for quick-service restaurants, while midscale operations fared slightly better with a 3% gain in breakfast visits. Not surprising in today's price-conscious environment, upscale places saw their morning traffic decline 3%.

"The real story, however," comments Bob O'Brien, director of sales and market development for NPD, "is that despite fluctuations both up and down in recent years, the breakfast market, in terms of numbers, has not really changed very much in the last decade. In the early '80s, 15% of households purchased breakfast from a restaurant at least once every two weeks, and that percentage was exactly the same last year."

So although the tremendous growth of the fast-food breakfast segment has drawn attention to the morning daypart in recent years, it did not really create much of a new market, O'Brien says.

"All fast food did was to steal a share from midscale operators and take over business from the old-fashioned luncheonette type places, which have also been disappearing over that same period," O'Brien points out.

More than any detectable trends in lifestyle on the part of consumers, whether toward eating breakfast at home more often, eating it out, or skipping it altogether, O'Brien believes



SOURCE: CREST, NPD Research (1990)

that the factor that has most significantly impacted breakfast business in the last few years is the intensity of marketing activity on the part of operators selling breakfast.

"By comparing the record of breakfast marketing activity by major chains to performance in the category," points out O'Brien, "you can see that the years in which breakfast traffic was weak were those in which it was not marketed, while in strong years it was heavily marketed."

continued on page 160

BREAKFAST

MARKET SEGMENT REPORT

The development of the fast-food breakfast market has certainly been the most dramatic development in the morning daypart in the last decade or so. Quick-service restaurants today account for 60% of all breakfast traffic, according to CREST figures. Midscale places have held on to a 36% share, while upscale restaurants garner just 4% of the breakfast market.

"One of the biggest services that McDonald's has done for the quick-service industry is to make fast food an acceptable option for breakfast. It is no longer a novel and strange idea, as it was when we first introduced our Breakfast Jack back in 1971," points out Mo Iqbal, vice president of marketing for Foodmaker Inc.'s 1,040-unit Jack in the Box chain. "Today the fast-food breakfast is an accepted feature of American society."

While many midscale operators agree on the strengths fast-food operators bring to the breakfast battle, there are differences of opinion on the degree to which they are in direct competition, now that quick-service has established its place in the market.

"Convenience, speed of service, and value are three very important factors to most weekday breakfast customers," notes Bob Evans' Williams, "and they are three areas where fast-food operators for the most part can do very well.

"In terms of convenience, for example, at breakfast people look for a place that is on their way to work. People might drive 10 miles out of their way to go out to dinner, but they are unlikely to go more than two or three streets out of their way for breakfast. So just in terms of sheer number of locations, fast-food places are convenient.

"However, we do not see ourselves as competing with fast food. Bob Evans serves a different occasion," Williams says.

Similarly, Ostrov of Country Kitchen says, "We've finally gotten our system to realize that we cannot compete with the fast-food guys. That is not our market. We don't put eggs on a muffin in a container for 99¢ and push it out a take-out window. Our market is the person who wants a full-service restaurant experience, a cooked-to-order breakfast served on real china by a friendly waitperson.

"So instead of competing against fast food, we have to build on our strengths. You simply cannot get what we offer at fast-food places."

McNulty of Village Inn agrees, commenting, "The fast-food breakfast occasion is a different set of circumstances. Our customers are looking for sit-down table service."

Barry Krantz, president of the family restaurant division of Restaurant Enterprises Group, Irvine, Calif., which operates two concepts serving breakfast, Coco's and Carrows, echoes them, noting, "The reality is that most of our customers trade among the full-service sit-down places for breakfast.

"However," Krantz concedes, "there is no question that if McDonald's runs an aggressive breakfast promotion, it hurts us all. Perhaps 80% of our customers would not consider it an option, but no one can afford to lose 20% of their business."

Pettise of IHOP, on the other hand, sees fast food as competing even more directly. "We spent a lot of money doing focus groups with consumers this year," he reports. "We found that we share visits by the typical consumer with fast food. A person may go to a fast-food place for breakfast three times a week and to a family restaurant or coffee shop once, or vice versa."

continued on page 166

Country Kitchen opened a unit in Puerto Rico, the first of a 10-unit Caribbean agreement.

Some operators are focusing on other dayparts.

1906

NUTRITIOUS FOOD FROM W.K. KELLOGG GENERATES EXCITEMENT AT BREAKFAST TIME.

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BREAKFAST

MARKET SEGMENT REPORT

On the positive side, Pettise adds, "I have noticed in my 10 years at IHOP that people who begin to eat breakfast out at fast-food places eventually decide to try a sit-down restaurant, although more often that will be on the weekend.

"Weekdays are the hardest part," claims Pettise. "But the point is that if people get into the habit of going out for breakfast, eventually they will try different segments. So I think the growth of fast-food breakfast eventually impacts favorably on traffic at IHOP."

VALUE MENUS? Probably the most talked about fast-food breakfast entry recently is that of Taco Bell. Although the Irvine, Calif.-based, PepsiCo-owned giant's breakfast roll-out so far involves just about 200 restaurants in the greater Los Angeles area, the move is generating intense interest nationwide. Many operators anticipate that the extension of Taco Bell's value menu strategy into the morning daypart will shake up the breakfast segment as much as it has impacted fast-food lunch and dinner segments in the last couple of years.

Consumers want the convenience of hand-held items.

"I think breakfast is going to be harder for them than lunch has been, but if they carry through with their same price-value strategy, it will certainly impact other fast feeders," says Krantz. "They will have to respond, which will ultimately affect the sit-down breakfast places like us, even if indirectly."

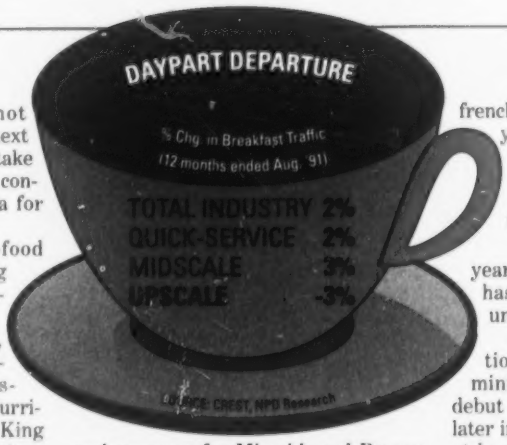
Value pricing is certainly a key element in Taco Bell's breakfast strategy. Its whole breakfast menu is priced under $1. Included are several varieties of breakfast burritos priced from 39¢ to 79¢ and a breakfast egg, bacon, and cheese sandwich on an English muffin for 99¢. Also on the morning menu are hash browns for 39¢ and a caramel roll for 59¢. Beverages include coffee, orange juice, and milk for 39¢ and 59¢.

Taco Bell executives will not comment on where or when the next step in the breakfast roll-out will take place, but no one expects it to be confined to just Southern California for very long.

In the meantime, other fast-food operators have been achieving results with strongly product-oriented breakfast promotions.

McDonald's Corp., Oak Brook, Ill., generated interest and reportedly boosted sales with its systemwide roll-out of the breakfast burrito last year. Meanwhile, Burger King was successful promoting its miniature Breakfast Buddy sandwich, an egg and cheese sandwich available with sausage, bacon, or ham.

"Our breakfast business has been excellent in the last year," notes a spokesperson for Miami-based Burger King. "The numbers have been increasing, and we can attribute part of that to interest generated by the Breakfast Buddy."



Burger King's Croissan'wich and french toast sticks, introduced several years ago, have also continued to sell well, she notes.

Burger King also offers its own breakfast burrito in a number of markets.

"It's been in our system for years," the spokesperson adds, "but hasn't been made widely available until recently."

Another recent breakfast addition at Burger King is blueberry mini-muffins. The chain expects to debut further new breakfast offerings later in '92, including some items aimed at health-conscious consumers as part of its new Lighter Way menu.

PRODUCTIVE. Another fast feeder that has been successful with breakfast in the past year is regional powerhouse

continued on page 168

CHARTS BY SHARI FANG

1992

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BREAKFAST

MARKET SEGMENT REPORT

Jack in the Box, based in San Diego, Calif.

"Our strategy at breakfast is the same as in our other dayparts. That is to keep customers interested by introducing a stream of new products at regular intervals," Iqbal notes.

Jack in the Box's latest entry is a sourdough breakfast sandwich, debuted in September. The sandwich features lean ham, eggs, and American and Swiss cheeses on grilled sourdough bread. "It has been well received, and has generated some incremental sales for us," Iqbal reports.

Other successful breakfast items for Jack in the Box include its scrambled egg pocket, several varieties of crescent roll sandwiches, and its original Breakfast Jack, a ham, egg, and cheese sandwich on a whole wheat bun. The Breakfast Jack is the only breakfast item offered all day by the chain, and about half of the sandwich's sales actually take place outside of breakfast hours.

Unlike most of its fast-food competitors, Iqbal adds, Jack in the Box offers its regular all-day menu during breakfast hours as well, which he believes helps account for some of the chain's morning strength. Breakfast makes up over 15% of sales on average for the chain.

While portable items sell best on weekdays, he adds, Jack in the Box does a good business on weekends with full breakfast plates such as a scrambled egg platter with muffin, bacon, and hash browns, and a pancake platter.

Another chain that sells hamburgers at breakfast is Juicy Lucy's Inc., Fort Myers, Fla. "A lot of people coming off a night shift are happy to be able to get hamburgers at 7 a.m.," says president Suzanne Grady.

The fledgling franchisor of double-drive-thrus opened its first unit in 1988, and first added breakfast last year. Juicy Lucy's takes an upscale approach, featuring home-style, freshly made foods, and a broader selection than competitors. It's breakfast menu includes an old-fashioned fried egg sandwich on a toasted bun for 79¢; bacon, sausage, and ham and egg versions; a western omelet on a bun; hot ham and cheese; and B.L.T., plus fries, all priced under $1.50.

Fast food claims 60% of the breakfast traffic.

WEEKDAY CHALLENGE. For the sit-down, family-style restaurants, weekdays have been a universal challenge, one that has become even more acute since the popularization of fast-food breakfasts.

"The weekday is always a tough fight, because it's more of a utilitarian phenomenon," Krantz comments. "Most people want something fairly basic, and it's hard to compete in that arena with the fast feeders.

"Quick service is the key Monday through Friday," he adds, "because ultimately time is the constraint. Good service becomes more important than ever. It is also important to remember that it is hard to bring new customers in for breakfast. People tend to get into a habit of where they eat breakfast. So the key is, you had better not lose any loyal customers over slow service."

"Weekday business requires continual promotion," Pettise says. "Consumers generally want to spend less and eat less than on weekends. But they respond to promotions. We find we have to incentivize them to come in."

Price in general is a bigger issue on weekdays, Thomas Wirt, executive vice president of marketing for Bakers Square, another VICORP operation, adds.

"We know we have some problems during

continued on page 174

Breakfast is still an important daypart at International House of Pancakes.

BREAKFAST

MARKET SEGMENT REPORT

Full-service dine-in concepts battle fast food for customers on weekdays; business is stronger on weekends.

the week, because our breakfast check average runs $6 to $7 weekdays or weekends, and on weekdays, most people don't want to spend more than $3 to $4," says Wirt. "On weekends, a $5-$7 breakfast is no problem for a lot of people, but if they spend that every day of the week, it adds up fast."

PRICE PROMOTIONS. Not surprisingly, therefore, a lot of midscale operators are focusing on weekday price-oriented promotions. Carrows, Krantz notes, has just come off a very successful weekday promotion, a "Best Value Power Breakfast."

"It was the first time Carrows has featured the breakfast daypart exclusively in a campaign," he points out.

Served Monday through Friday from 5 a.m. to 11:30 a.m., the "Power Breakfast" offered customers two eggs, two pieces of bacon or sausage, and their choice of one additional item from a list, which included french toast, buttermilk pancakes, hash browns and toast, biscuits and gravy, or half a waffle. The Best Value Power Breakfast was priced at just $2.59. The same choice was also available weekends for $3.59.

"Our traffic counts went up very significantly during the special," Krantz says, "and profits were also pleasing."

Weekday breakfast is a more important factor at Carrows, which is open 24 hours and can be described as a slightly upscaled version of Denny's, Krantz adds, than at the company's other concept. Coco's, which he terms more "top of midscale," puts considerably greater emphasis on weekend breakfasts. It, too, has a major new breakfast program scheduled to roll out in '92.

NUTRITION. Bob Evans' strategy this year will be to focus its breakfast promotional efforts on weekdays with light, nutritional items aimed at likely weekday breakfast patrons.

"We've identified three opportunity markets for weekday breakfasts, and we're tailoring efforts to each one," Williams explains. "First is the person for whom the weekday breakfast is a daily regimen. Speed, value, and convenience are key factors here.

"Another opportunity is the meeting breakfast. We want to position ourselves as a place for businesspeople to meet.

"The third segment is the 'leisure breakfast' market, which to a large extent is made up of senior citizens these days, so we're tailoring some new menu items and programs to them."

Breakfast checks average about $4 systemwide, and the meal contributes about 27% of chainwide dollar volume. Bob Evans' stores, all company-owned, are located in 14 states concentrated in the Midwest. The firm continues to open about 20 new stores a year, Williams notes.

Carrows' "Best Value Power Breakfast" promo worked.

Another chain focusing on weekday breakfast is Le Peep, based in Denver, which operates 58 stores around the country, about half of them franchised.

"Our business is still stronger on weekends than on weekdays," notes Le Peep's executive vice president Tony Doyle, "but we have been able to shift the percentages somewhat in the last couple of years. We used to do 70% of our sales on weekends. Now the split is closer to 60-40."

The company has been concentrating on in-store efforts to persuade weekend customers to come back on weekdays, Doyle notes. They have included "bounce back" programs, such as distributing coupons to weekend customers good for discounts on weekday breakfasts.

"We've also been working a lot with our service staffs. We've always been a superb company from the point of view of operations. More recently we've been working with managers and servers on service. We want to convince them that 'service sells,' and impress on them that they need to engage people and talk with them," says Doyle.

"We're not talking about just suggestive selling, but an active approach to marketing the restaurant through our waitstaff. Some of it can be as simple as telling customers you hope to see them back soon."

Like Bob Evans Farms, Le Peep is also working on marketing its restaurants as meeting places.

"We can provide a place for companies to hold breakfast

continued on page 178

meetings and awards programs," Doyle says. "We're concentrating now on trying to get the word out on these programs through local store marketing efforts."

With most Le Peep restaurants open for breakfast and lunch, the chain is also going beyond breakfast, to market off-hour catering opportunities as a way to make better use of its resources.

"We can offer companies and organizations a pleasant facility, an eclectic menu, and because our kitchens are equipped to cook everything from scratch, we can also offer off-menu items, such as steak dinners, or just about anything someone might request," Doyle points out.

LIMITED OPTIONS. One problem that is shared by breakfast operators in marketing morning meals is the relatively limited number of options available, compared to other dayparts.

"As much as we try to innovate, the reality is that breakfast basically means cereal, eggs, breakfast meats, and pancakes," comments Ostrov of Country Kitchen. "It really offers you a pretty limited palette from which to build."

The challenge to breakfast operators often seems to be how many creative combinations and variations they can come up with while staying within this limited array. Another important element lies in differentiating themselves and steering breakfast sales away from the strictly commodity-type items, where price competition tends to be more intense.

"With a meal like two eggs, hash browns, and toast, there is a lot of competition and price sensitivity," Ostrov points out. "With something like our new Belgian waffles, there is a greater perception of uniqueness, and that means less price pressure."

For the same reason, Country Kitchen concentrates much of its promotional push for morning business on its skillet breakfasts, which are its most expensive, "top of the line" items.

"They are more profitable in dollars for us, though not on a percentage basis," Ostrov claims.

Last year Country Kitchen took its Southern Skillet systemwide, which had the added advantage, Ostrov says, of "bringing biscuits back into the restaurants." The Southern Skillet consists of two sausage patties on biscuits served with two eggs and country sausage with gravy on the side, which is brought to the table in a skillet. The Southern Skillet is priced at about $4.

New contenders in the morning daypart include sub/sandwich shops, c-stores, and bakery/cafe concepts.

The chain also elevated a Southwestern-flavored Fiesta Skillet from a regionally promoted feature to its regular menu. A test of blueberry and banana pancakes in '91 led to the addition of blueberry pancakes as another regular menu item.

This year, Ostrov adds, the chain will be promoting oatmeal. "We're featuring it on our point-of-sale material to remind people that we have it. We've also significantly upgraded our presentation. Instead of a simple bowl of oat-

continued on page 183

Country Kitchen upgraded its hot cereal presentation with fruit and muffins.

BREAKFAST

MARKET SEGMENT REPORT

meal, our new cereal presentation includes fruit and a muffin. This has enabled us to increase the price and boost check average, while still providing a high value perception to customers.

"In-season we make up our own fresh fruit compote to go with the cereal, while off-season we use a prepared product," he adds. "Another nice feature of the presentation is that it gives our operations enough use for the fruit so that it now makes sense for them to prepare it fresh in-season."

BUNDLING. Another operator emphasizing bundling is perennial breakfast favorite Denny's. The nearly 1,300-unit chain has continued to elaborate on its Grand Slam breakfast line, which first debuted over a decade ago.

The Irvine, Calif.-based division of TW Services added three new Grand Slam breakfasts in '91, according to vice president of marketing Bill Campion. All take off from the basic Grand Slam formula, which consists of two eggs, two pancakes, two strips of bacon, and two sausage links.

One new addition, the Harvest Slam, substitutes a whole wheat apple nut pancake with apple topping for plain pancakes. A second variation, the International Slam, offers a Belgian waffle and french toast along with sausage and bacon. The third addition, Play It Again Slam, is an enhanced version for king-size appetites, with three of each item instead of the two served with the regular Grand Slam.

The additions bring Denny's Grand Slam line to nine variations, which the chain heavily promoted last spring and summer in a major campaign tied to Major League Baseball, according to Campion. The program marked a return to TV advertising focused on breakfast, after the company spent the prior year highlighting lunch and dinner. Denny's also extended its Grand Slam offerings onto its lunch and dinner menus, Campion says.

PHOTO BY JOHN GRAY

Breakfast gets an ethnic twist with this South of the Border variation.

This year the chain will be looking at further enhancements to its Grand Slam line, as a means of concentrating on its significant point of difference. It may add some new products to breakfast to replace some slow movers.

Another chain that continues to concentrate on its tried and true point of difference is 1,658-unit Shoney's Inc., Nashville, Tenn., which focuses morning efforts on its Breakfast Bar. This year the chain is celebrating the 10th anniversary of the Breakfast Bar, according to vice president of marketing Jeff Sowell. Shoney's will mark the event with special promotions.

The heart of the anniversary program will be a discounted price of $2.99 Mondays through Fridays at participating stores. That represents a $1-$2 savings, depending on the market.

"We'll do a lot of publicity around the

continued on page 184

Fast-food breakfast traffic grew 2%;

midscale restaurants saw a 3% gain;

upscale traffic was down -3%.

BREAKFAST

MARKET SEGMENT REPORT

celebration," Sowell says. "We've developed a special logo to use in all our advertising, and we will be running full page ads in *USA Today*." The promotion is geared specifically to increasing Shoney's' weekday breakfast share, Sowell points out. Although the restaurants also offer à la carte breakfast menus, more than 90% of customers order off the Breakfast Bar.

In addition to basics like eggs, pancakes, bacon, and sausage, which are served daily, Shoney's rotates other items on and off the bar on a monthly basis to keep it fresh and inviting to regular customers. Recent additions have included more cereal choices and a larger variety of fresh fruits. Last year the chain also debuted a brunch cake, which has become a permanent addition.

Quincy's Family Steakhouse, based in Spartanburg, S.C., got into the breakfast business recently with its own breakfast bar, an outgrowth of its Country Sideboard buffet offered at lunch and dinner.

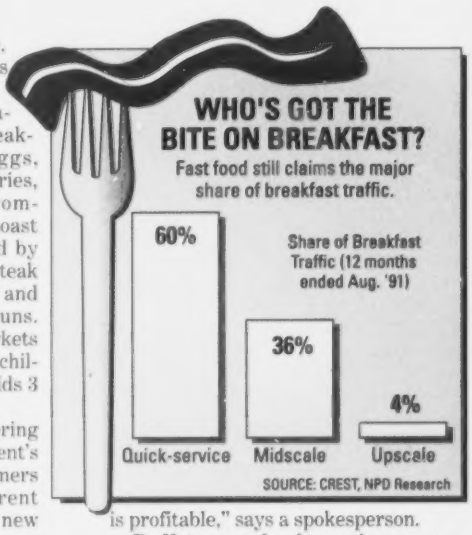
After several years of testing, the breakfast bar roll-out was extended to all 216 units of the Southeastern chain, a division of TW Services Inc.

Quincy's 50-item bar is offered on weekends only, from 7 a.m. to 11 a.m. It features traditional country breakfast fare like scrambled eggs, bacon, ham, sausage, home fries, pancakes, grits, made-from-scratch biscuits, and french toast sticks. The bar is augmented by extras like corned beef hash, steak fingers, red rice, fresh fruit and cottage cheese, and honey buns. The bar is priced in most markets at $4.29 for adults, $1.99 for children aged 4-12, and free for kids 3 and under.

Already the breakfast offering is achieving both of management's goals: to bring regular customers back more often for a different meal occasion and to entice new customers in the door.

As part of its tests, Quincy's experimented with several approaches to weekday breakfasts as well, including an à la carte menu and the buffet. However, results convinced the chain to limit service to weekends.

"We determined that this is when customers want breakfast, and when it is profitable," says a spokesperson.



Buffets are also becoming a more popular option among Country Kitchen franchisees for Saturday and Sunday service.

"While building weekday business tends to be a struggle, on weekends our biggest problem is how to get more bodies through the restaurants quickly," Ostrov points out. "Buffets provide a more convenient way to do this, with shorter waits, while customers get a great value. At the same time we get a higher check, and it takes some of the strain off the kitchen." Well over half of the Country Kitchen system now offers weekend buffets.

HEALTH: JUST TALK? Health trends continue to be a major focus for many operators as well, although there is a general consensus that, particularly at breakfast, there is more lip service given to health concerns than actual participation by the majority of customers.

"Per capita consumption of eggs is declining, but the fact is that egg dishes are still our best-selling breakfast items," Iqbal of Jack in the Box says.

"There is a hard core group of customers that order healthy items, but it is much smaller than the number of people who talk about it," adds Doyle of Le Peep. "Although they don't make up a big portion of our sales, we offer a range of healthy choices. It hasn't really changed the product mix we're sell-

continued on page 188

New drive-thru-only concept, Juicy Lucy's, has added breakfast to its menu.

BREAKFAST

MARKET SEGMENT REPORT

ing very much, but it gives people a reason not to say no to our restaurants."

Negating that veto factor is the reason that many operations have added health-oriented items, especially at breakfast. But just because they are on the menu doesn't mean they sell well.

"Health is clearly a market, but a minority," echoes Krantz. "We've added some healthy options, but we also still sell a lot of chicken-fried steak and eggs."

One key to success in marketing health-oriented items is making sure that the message includes taste as well as nutrition.

Village Inn, for example, successfully rolled out a new line of low-fat, low-cholesterol, low-sodium breakfasts marketed under the theme, "So good you'd swear they were bad for you."

Although he agrees with the general opinion that there is more talk than participation when it comes to health, McNulty notes that the response to the items actually exceeded management's expectations. The menu includes three omelets made with a low-cholesterol egg substitute, granola and fruit with yogurt, also available with a muffin, and low-cholesterol fruit and nut pancakes.

Egg substitutes are also playing a bigger role on the menu at Country Kitchen. Following on the heels of its debut of a breakfast platter featuring a low-cholesterol egg substitute, last year the chain rolled out a new omelet made with the same product, and this year it will introduce a skillet breakfast featuring the egg substitute as well.

One chain that has made healthy eating a key orientation from the start is Hobee's, an 11-unit group based in (where else?) Palo Alto, Calif. For years, Hobee's has offered customers an egg-less alternative in the form of a tofu scramble, which consists of tofu mixed with seasonings, fresh spinach, mushrooms, onions, and tomatoes. The chain also recently began offering egg substitutes for customers who don't care for tofu, according to Kelley De Foor, executive vice president of Taber Food Service, which operates Hobee's.

About 15% of U.S. households bought breakfast from a restaurant at least once every two weeks.

The extensive breakfast menu also includes such health-oriented items as Hi-Protein Honey Whole Wheat pancakes, tofu-vegetable patty and eggs, homemade fresh granola, Energy Blend yogurt-based drinks, and turkey sausages.

Some of the chain's other signature breakfasts include hash-brown platters topped with varied assortments of vegetables, cheese, chicken, turkey sausage, and other ingredients, and home-baked blueberry coffeecake, which is offered as a tasty alternative to toast with most breakfasts.

Jack in the Box's sourdough breakfast sandwich.

Another featured breakfast option is a hot oatmeal bar, served until 10:30 a.m., where customers can help themselves to cereal and different toppings like raisins, cinnamon, low-fat or nonfat milk, and honey.

The restaurants greet customers with a choice of coffee or cinnamon-orange tea, brewed and served by the potful, De Foor adds.

Except for the oatmeal bar, Hobee's offers its breakfast menu all day. While breakfast hours account for about 45% of the chain's total sales, breakfast items contribute close to 60%.

ALL-DAY MORNING. With weekday breakfasts a tough draw, some breakfast-oriented places are putting a greater emphasis on marketing breakfast foods all day.

Elmer's Pancake & Steak House, Portland, Ore., for example, a 28-unit chain, focused its marketing efforts last year on a major campaign, complete with TV advertising, themed "Why Not Have Breakfast for Dinner Tonight?" The six-week promotion not only boosted night-time sales, but also helped to strengthen morning traffic, says president and CEO Herman Goldberg, who plans to repeat the campaign this year.

About 60% of dinner sales are items from the breakfast menu, he adds, which features about 30 varieties of pancakes and crêpes in addition to other standard breakfast fare.

Like several oth-

continued on page 194

er operators, Elmer's is also marketing itself as a venue for business meetings. "That is one weekday breakfast opportunity where fast food can't compete," Goldberg notes. "Especially with the decline of the two-martini lunch, business breakfast meetings are becoming a bigger market. We sometimes have as many as three or four meetings going on at a time."

In New York City, the catering firm of Fisher & Levy specializes in bringing breakfast as well as lunch to businesspeople, with an operation geared to office delivery. Its breakfast menu is heavy on baked goods, including muffins, croissants, danish, old-fashioned ruggelah, assorted bagels, and its latest addition, hand-made no-cholesterol donuts.

"Particularly with our new donuts, we've found a market niche with a low food cost where we can provide a high-quality item—significantly higher quality than most people are used to in a donut," says partner Chip Fisher. A large number of donuts, 300 to 500 daily, are sold in the operation's retail outlet, he adds, where the increased interest they have generated has also helped boost lunch sales.

UPSCALE DOWNSIDE? With the recession in full swing, times are tough for upscale operators, according to Diamond of Dozens, where the breakfast check averages $5.50. Still, he feels the way to succeed is to stick with its upscale niche, rather than try to compete against lower-priced operators.

"Our food cost is twice that of Denny's, hence we have to charge twice as much, and somehow demonstrate to customers that they are getting the value," says Diamond. "But I don't have to respond to $1.99 breakfast specials."

Dozens' slogan is "Freshness First," and a heavy emphasis is placed on marketing the freshness of its offerings, from fresh-squeezed juices and fresh fruits, to on-premise baked goods.

Le Peep, on the other hand, is trying to avoid the upscale label, while still providing a high-quality experience.

"We want to position our operations and our menu as a cut above what most of the other breakfast places can offer, but we don't want the high-price conno-

continued on page 196

Soup manufacturers and consultants name Tomlinson Frontier Kettles® the hottest food merchandisers.

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Morning business meetings have yet to be exploited.

tations associated with the term 'upscale'," Doyle says.

Some hotels, too, are trying to shed their high-priced breakfast image in an attempt to keep guests in-house who might be inclined otherwise to look for bargains elsewhere.

"We have always been very successful at in-house capture, with an almost guaranteed 90% success rate at breakfast. But there has been some talk of downswings in the last year, as people have been getting more selective about where they spend their dollars," notes Sue Halsey, manager of menu merchandising for the hotel division of Marriott Corp., based in Washington, D.C.

"We're encouraging our hotels not to raise prices, but to strive to stay flat, or very price-sensitive," Halsey says. The hotels are also increasing their offerings of special breakfast-included room rates to help stimulate lodging business in today's tougher economy.

EXPEDITE. "Our other direction right now is trying to expedite the breakfast meal period on weekdays as much as possible, by using placemat menus to streamline service, and continuing to offer a buffet option."

On weekends, Halsey adds, the hotel chain has lightened up its breakfast buffet somewhat.

"We've gotten rid of some of the extras that were more for attractiveness and presentation. We've found people don't seem to need or want as much as we were giving them before, and the change has helped us cut down on waste."

Another small but growing trend in hotels seems to be the offering of Japanese breakfasts. Last year, the Toronto, Canada-based Four Seasons hotel chain began providing this option at several properties.

The latest operation to join in is Hotel Nikko in Atlanta, a Japanese-owned luxury hotel that serves about a 10% Japanese clientele. Its Japanese breakfast includes such items as grilled salmon, pickled vegetables, daikon radish, poached egg, miso soup, steamed rice, cold cooked spinach with bonito flakes, and green tea, for $14.50. Although initially offered strictly as a service to Japanese guests, management is considering widening its marketing of the breakfast to Americans who might find it intriguing from a healthy point of view, or simply to try something different.

That's the sort of innovative thinking that will be needed to crack open the breakfast market and lure greater numbers of customers to the morning daypart. **RB**

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